

09 March 2012

PINC Quick Bite  
Sector: Power Utilities  
BSE Sensex : 17,503

**CESC**

BUY  
CMP Rs291  
TP Rs350

**Hitul Gutka** +91-22-6618 6410  
hitul.gutka@pinc.co.in  
**Vinod Nair** +91-22-6618 6379  
vinod.nair@pinc.co.in  
**Madhura Joshi** +91-22-6618 6395  
madhura.joshi@pinc.co.in

## Higher RoE to boost future earnings

CESC on 6th March 2012 was finally awarded the tariff order for FY12 by WBERC. The commission not only allowed CESC to raise tariffs by 13.3% for the current fiscal but also raised blended RoE to 16% for the tariff period. We understand that the company has already started to bill its clients as per the new order from the current billing cycle. The arrears of FY12, along with interest, will be collected over a period of 48 months. In the retail business, we assume a further delay in its breakeven owing to a slower growth in the overall economy. However, we believe the stock continues to offer value even after assuming increased cash infusion into the loss making retail business. Maintain BUY on the stock with a target price of Rs350/share.

### 13.3% tariff hike approved

Tariff hike approved by the regulator, although late, is in our view both sentimentally and fundamentally positive for the stock. Despite raising tariffs by Rs0.46/unit at the start of FY12 - thereby increasing tariffs to Rs5.21/unit - CESC's earnings were marred by growing under-recoveries of its fixed costs. We believe the company had under-recoveries of Rs350-450mn for the preceding three quarters. This latest increase of Rs0.69/unit, in our view, should adequately compensate CESC for these under-recoveries.

### Blended rate of return increased to 16%

The regulator has allowed CESC to earn 15.5% and 16.5% post tax RoE for the block FY12-14 for its generation and distribution business respectively. We believe this a key positive as it will aid the company to earn an incremental Rs250-300mn/year. This coupled with interest on arrears translates into 6.7% and 6.2% increase in our FY13 and FY14 earnings estimate.

### Tariff order hints at consuming lower grade coal

The tariff order highlights that CESC will consume lower grade coal going forward. Budge Budge (highest capacity) will consume 3,476kcal/kg grade coal - lowest amongst CESC's stations compared to 3,713kcal/kg as per the 2008-11 multi year tariff (MYT) order. Also, its New Cossipore station will consume 5,800kcal/kg grade coal - lower than 6,035kcal/kg reported in its previous order. New Cossipore is CESC's only station which consumes high grade coal. This will lead to an increase in coal consumption to >7mtpa.

### Outlook and recommendation

CESC is one of the most efficient power generators and distributors in the country with its stations being available for over 90%. Despite this, we believe the company will continue to trade at discounted valuation given the cash infusion from its generation business into its loss making retail venture. However, we believe the parent shall be able to generate sufficient cash to fund Spencer's losses and other capex. We upgrade our earnings estimates to reflect higher RoE and interest on arrears for FY12. We estimate standalone earnings to be at Rs5.0bn and Rs5.4bn during FY12 and FY13 respectively. Maintain BUY on the stock with a target price of Rs350/share, implying 20% upside.

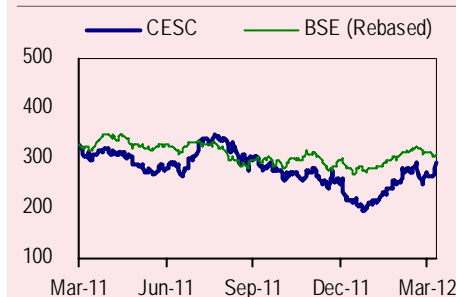
### KEY FINANCIALS (STANDALONE)

	FY10	FY11	FY12E	FY13E	FY14E
Net Sales	33,584	40,105	46,869	55,106	59,326
YoY Gr. (%)	8.7	19.4	16.9	17.6	7.7
Op. Profits	8,727	11,315	12,530	14,473	15,471
OPM (%)	26.0	28.2	26.7	26.3	26.1
Adjusted Net Profit	4,233	4,781	5,016	5,468	5,807
YoY Gr. (%)	7.4	12.9	4.9	9.0	6.2

### KEY RATIOS

Dil. EPS (Rs)	33.7	38.1	39.9	43.5	46.2
ROCE (%)	10.0	11.2	10.9	10.9	10.4
RoE (%)	10.6	10.5	10.0	10.0	9.7
Core RoE (%)	12.5	13.9	13.9	15.1	15.1
PER (x)	8.6	7.6	7.3	6.7	6.3
P/B (x)	0.9	0.8	0.7	0.6	0.6

### RELATIVE PERFORMANCE



### PERFORMANCE (%)

	1M	3M	12M
Absolute	(4.7)	2.6	(18.0)
Relative	(1.5)	1.0	(11.7)

For rating objective and disclaimer, please refer to last page of the report

PINC Research reports are also available on Reuters, Thomson Publishers and Bloomberg [PINC <GO>](#)

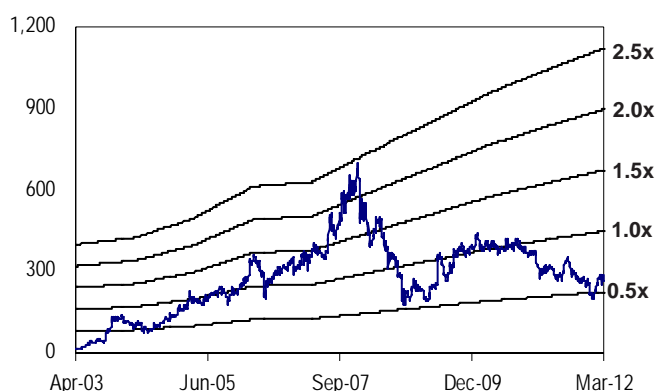
Income Statement	FY10	FY11	FY12E	FY13E	FY14E
Revenues	33,584	40,105	46,869	55,106	59,326
Growth (%)	8.7	19.4	16.9	17.6	7.7
Operating Profit	8,727	11,315	12,530	14,473	15,471
Other Income	806	714	695	526	535
EBITDA	9,533	12,030	13,225	14,999	16,005
Growth (%)	16.7	26.2	9.9	13.4	6.7
Depreciation & Amortization	2,056	2,674	2,828	2,983	3,137
EBIT	7,476	9,356	10,397	12,015	12,868
Interest Charges (Net)	2,356	3,317	3,852	4,686	4,985
PBT (Before E/o items)	5,120	6,039	6,546	7,329	7,883
Tax provision	888	1,259	1,529	1,861	2,076
Pre-exceptional PAT	4,233	4,781	5,016	5,468	5,807
Extra-ordinary items	100	104	-	-	-
Net Profit	4,333	4,884	5,016	5,468	5,807
Growth (%)	5.8	12.7	2.7	9.0	6.2
Basic EPS (Rs)	33.7	38.1	39.9	43.5	46.2
Diluted EPS (Rs)	33.7	38.1	39.9	43.5	46.2
Growth (%)	7.4	12.9	4.9	9.0	6.2

Cash Flow Statement	FY10	FY11	FY12E	FY13E	FY14E
Pre-tax profit	5,120	6,039	6,546	7,329	7,883
Depreciation	2,056	2,674	2,828	2,983	3,137
Total tax paid	(888)	(1,259)	(1,529)	(1,861)	(2,076)
Chg in working capital	(709)	(1,787)	(4,200)	(3,444)	(1,111)
Other items	100	104	-	-	-
Cash from oper. (a)	5,681	5,770	3,644	5,008	7,833
Capital expenditure	(9,510)	(6,159)	(5,516)	(6,603)	(6,466)
Chg in investments	(3,444)	(5,470)	(7,349)	(8,186)	(8,850)
Other items	-	-	-	-	-
Cash from inv. (b)	(12,955)	(11,629)	(12,865)	(14,789)	(15,316)
Free cash flow (a+b)	(7,274)	(5,859)	(9,221)	(9,781)	(7,483)
Equity raised/(repaid)	-	-	-	-	-
Debt raised/(repaid)	4,652	2,439	10,407	9,998	8,906
Minority Interest	-	-	-	-	-
Dividend (incl. tax)	(585)	(583)	(581)	(597)	(650)
Other items	1,657	1,193	(16)	(54)	(40)
Cash from fin. (c)	5,724	3,049	9,811	9,348	8,216
Net chg in cash (a+b+c)	(1,550)	(2,809)	590	(433)	733

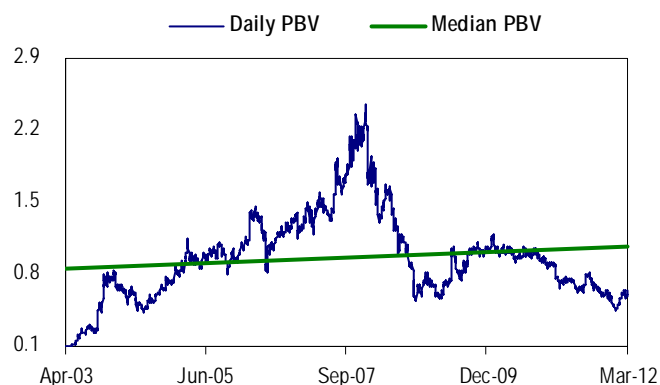
Balance Sheet	FY10	FY11	FY12E	FY13E	FY14E
Equity Share Capital	1,256	1,256	1,256	1,256	1,256
Reserves & Surplus	41,371	46,865	51,285	56,103	61,220
Shareholders' Funds	42,627	48,121	52,541	57,359	62,476
Minority Interest	-	-	-	-	-
Total Debt	37,082	39,520	49,928	59,926	68,832
Deferred Tax liability	-	-	-	-	-
Capital Employed	79,708	87,642	102,469	117,285	131,308
Fixed Assets	61,373	64,858	67,547	71,166	74,495
Cash & cash eq.	11,198	8,388	8,978	8,545	9,278
Net current assets	(7,857)	(6,069)	(1,870)	1,574	2,685
Investments	14,995	20,464	27,813	36,000	44,850
Total Assets	79,708	87,642	102,469	117,285	131,308

Key Ratios	FY10	FY11	FY12E	FY13E	FY14E
OPM (%)	26.0	28.2	26.7	26.3	26.1
Net Margin (%)	12.6	11.9	10.7	9.9	9.8
Dividend Yield (%)	1.6	1.6	1.6	1.6	1.8
Net Debt/Equity (x)	0.6	0.6	0.8	0.9	1.0
Net working capital (days)	(84.2)	(54.5)	(14.4)	10.3	16.3
ROACE (%)	10.0	11.2	10.9	10.9	10.4
ROANW (%)	10.6	10.5	10.0	10.0	9.7
EV/Sales (x)	1.9	1.7	1.7	1.6	1.6
EV/EBITDA (x)	6.5	5.6	5.9	5.9	6.0
PER (x)	8.6	7.6	7.3	6.7	6.3
PCE (x)	5.7	4.8	4.7	4.3	4.1
Price/Book (x)	0.9	0.8	0.7	0.6	0.6

**P/BV Band**



**Median P/BV v/s Daily P/BV**



**T E A M**

**EQUITY DESK**

Sadanand Raje	Head - Institutional Sales Technical Analyst	<a href="mailto:sadanand.raje@pinc.co.in">sadanand.raje@pinc.co.in</a>	91-22-6618 6366
---------------	---	--	-----------------

**RESEARCH**

Vineet Hetamasaria, CFA	<b>Head of Research, Auto, Cement</b>	<a href="mailto:vineet.hetamasaria@pinc.co.in">vineet.hetamasaria@pinc.co.in</a>	91-22-6618 6388
Nikhil Deshpande	Auto, Auto Ancillary, Cement	<a href="mailto:nikhil.deshpande@pinc.co.in">nikhil.deshpande@pinc.co.in</a>	91-22-6618 6339
Tasmai Merchant	Auto, Auto Ancillary, Cement	<a href="mailto:tasmai.merchant@pinc.co.in">tasmai.merchant@pinc.co.in</a>	91-22-6618 6377
Vinod Nair	Construction, Power, Capital Goods	<a href="mailto:vinod.nair@pinc.co.in">vinod.nair@pinc.co.in</a>	91-22-6618 6379
Ankit Babel	Capital Goods, Engineering	<a href="mailto:ankit.b@pinc.co.in">ankit.b@pinc.co.in</a>	91-22-6618 6551
Hitul Gutka	Power	<a href="mailto:hitul.gutka@pinc.co.in">hitul.gutka@pinc.co.in</a>	91-22-6618 6410
Subramaniam Yadav	Construction	<a href="mailto:subramaniam.yadav@pinc.co.in">subramaniam.yadav@pinc.co.in</a>	91-22-6618 6371
Madhura Joshi	Power	<a href="mailto:madhura.joshi@pinc.co.in">madhura.joshi@pinc.co.in</a>	91-22-6618 6395
Satish Mishra	Fertiliser, Oil & Gas	<a href="mailto:satish.mishra@pinc.co.in">satish.mishra@pinc.co.in</a>	91-22-6618 6488
Urvashi Biyani	Fertiliser, Oil & Gas	<a href="mailto:urvashi.biyani@pinc.co.in">urvashi.biyani@pinc.co.in</a>	91-22-6618 6334
Naveen Trivedi	FMCG	<a href="mailto:naveent@pinc.co.in">naveent@pinc.co.in</a>	91-22-6618 6384
Rohit Kumar Anand	IT Services	<a href="mailto:rohit.anand@pinc.co.in">rohit.anand@pinc.co.in</a>	91-22-6618 6372
Niraj Garhyan	IT Services	<a href="mailto:niraj.garhyan@pinc.co.in">niraj.garhyan@pinc.co.in</a>	91-22-6618 6382
Namrata Sharma	Media	<a href="mailto:namrata.sharma@pinc.co.in">namrata.sharma@pinc.co.in</a>	91-22-6618 6412
Sakshee Chhabra	Media	<a href="mailto:sakshee.chhabra@pinc.co.in">sakshee.chhabra@pinc.co.in</a>	91-22-6618 6516
Bikash Bhalotia	Metals, Mining	<a href="mailto:bikash.bhalotia@pinc.co.in">bikash.bhalotia@pinc.co.in</a>	91-22-6618 6387
Harleen Babber	Metals, Mining	<a href="mailto:harleen.babber@pinc.co.in">harleen.babber@pinc.co.in</a>	91-22-6618 6389
Dipti Vijaywargi	Metals, Mining	<a href="mailto:dipti.vijaywargi@pinc.co.in">dipti.vijaywargi@pinc.co.in</a>	91-22-6618 6393
Sushant Dalmia, CFA	Pharma	<a href="mailto:sushant.dalmia@pinc.co.in">sushant.dalmia@pinc.co.in</a>	91-22-6618 6462
Poonam Sanghavi	Pharma	<a href="mailto:poonam.sanghavi@pinc.co.in">poonam.sanghavi@pinc.co.in</a>	91-22-6618 6709
Suman Memani	Real Estate, Mid caps	<a href="mailto:suman.memani@pinc.co.in">suman.memani@pinc.co.in</a>	91-22-6618 6479
Abhishek Kumar	Real Estate, Mid caps	<a href="mailto:abhishek.kumar@pinc.co.in">abhishek.kumar@pinc.co.in</a>	91-22-6618 6398
C Krishnamurthy	Technical Analyst	<a href="mailto:krishnamurthy.c@pinc.co.in">krishnamurthy.c@pinc.co.in</a>	91-22-6618 6747

**SALES**

Rajeev Gupta	Equities	<a href="mailto:rajeev.gupta@pinc.co.in">rajeev.gupta@pinc.co.in</a>	91-22-6618 6486
Ankur Varman	Equities	<a href="mailto:ankur.varman@pinc.co.in">ankur.varman@pinc.co.in</a>	91-22-6618 6380
Himanshu Varia	Equities	<a href="mailto:himanshu.varia@pinc.co.in">himanshu.varia@pinc.co.in</a>	91-22-6618 6342
Shailesh Kadam	Derivatives	<a href="mailto:shaileshk@pinc.co.in">shaileshk@pinc.co.in</a>	91-22-6618 6349
Ganesh Gokhale	Derivatives	<a href="mailto:ganeshg@pinc.co.in">ganeshg@pinc.co.in</a>	91-22-6618 6347

**DEALING**

Amar Margaje		<a href="mailto:amar.margaje@pinc.co.in">amar.margaje@pinc.co.in</a>	91-22-6618 6327
Ashok Savla		<a href="mailto:ashok.savla@pinc.co.in">ashok.savla@pinc.co.in</a>	91-22-6618 6321
Sajjid Lala		<a href="mailto:sajjid.lala@pinc.co.in">sajjid.lala@pinc.co.in</a>	91-22-6618 6337
Raju Bhavsar		<a href="mailto:rajub@pinc.co.in">rajub@pinc.co.in</a>	91-22-6618 6322
Hasmukh D. Prajapati		<a href="mailto:hasmukhp@pinc.co.in">hasmukhp@pinc.co.in</a>	91-22-6618 6325
Dhirenpuri D. Goswami		<a href="mailto:dhirenpurig@pinc.co.in">dhirenpurig@pinc.co.in</a>	91-22-6618 6345
Arjun Prajapati		<a href="mailto:arjun.prajapati@pinc.co.in">arjun.prajapati@pinc.co.in</a>	91-22-6618 6346

**DIRECTORS**

Gaurang Gandhi		<a href="mailto:gaurangg@pinc.co.in">gaurangg@pinc.co.in</a>	91-22-6618 6400
Hemang Gandhi		<a href="mailto:hemangg@pinc.co.in">hemangg@pinc.co.in</a>	91-22-6618 6400
Ketan Gandhi		<a href="mailto:ketang@pinc.co.in">ketang@pinc.co.in</a>	91-22-6618 6400

**COMPLIANCE**

Rakesh Bhatia	Head Compliance	<a href="mailto:rakeshb@pinc.co.in">rakeshb@pinc.co.in</a>	91-22-6618 6400
---------------	-----------------	--	-----------------

Rating Objective		
Rating	Large Caps	Mid Caps
	M.Cap > USD1bn	M.Cap <= USD1bn
Return %		
<b>BUY</b>	<b>More than 15</b>	<b>More than 20</b>
<b>Accumulate</b>	<b>5 to 15</b>	<b>10 to 20</b>
<b>Reduce</b>	<b>(-)5 to +5</b>	<b>0 to 10</b>
<b>Sell</b>	<b>Below (-)5</b>	<b>Less than 0</b>

**PINC** bright thinking

**Infinity.com**

Financial Securities Ltd

SMALL WORLD, INFINITE OPPORTUNITIES

Member : Bombay Stock Exchange & National Stock Exchange of India Ltd. : Sebi Reg No: INB 010989331. Clearing No : 211  
1216, Maker Chambers V, Nariman Point, Mumbai - 400 021; Tel.: 91-22-66186633/6400 Fax : 91-22-22049195

Disclaimer: This document has been prepared by the Research Desk of M/s Infinity.com Financial Securities Ltd. (PINC) and is meant for use of the recipient only and is not for public circulation. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors

The information contained herein is obtained and collated from sources believed reliable and PINC has not independently verified all the information given in this document. Accordingly, no representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document.

The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The opinion expressed or estimates made are as per the best judgement as applicable at that point of time and PINC reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval

PINC, its affiliates, their directors, employees and their dependant family members may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document

This report has been prepared on the basis of information, which is already available in publicly accessible media or developed through analysis of PINC. The views expressed are those of analyst and the PINC may or may not subscribe to all the views expressed therein

This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. Neither this document nor any copy of it may be taken or transmitted into the United State (to U.S.Persons), Canada, or Japan or distributed, directly or indirectly, in the United States or Canada or distributed or redistributed in Japan or to any resident thereof. The distribution of this document in other jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions

Neither PINC, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information.

Copyright in this document vests exclusively with PINC and this document is not to be reported or circulated or copied or made available to others.

Our reports are also available on Reuters, Thomson Publishers and Bloomberg PINV <GO>